EXHIBIT 16

FINANCIAL OVERSIGHT AND MANAGEMENT BOARD
FOR PUERTO RICO

SENT VIA ELECTRONIC MAIL

March 9, 2017

Honorable Ricardo A. Rosselló Nevares
Governor of Puerto Rico
La Fortaleza
PO Box 9020082
San Juan, PR 00902-0082

Dear Governor Rosselló Nevares:

The Board has received the Government's proposed fiscal plan (the "Proposed Plan") and recognizes the many difficult decisions put forth to move Puerto Rico's financial condition in the right direction. Nonetheless, the Board has determined that the Proposed Plan does not comply with the requirements set forth in PROMESA.[1] Specifically, the Proposed Plan is based on unrealistic projections of economic growth, substantially underestimates spending, and reflects overly optimistic revenue projections. The Proposed Plan also fails to provide for the scale and timing of expenditure reduction required to achieve medium-term structural balance and near-term liquidity. As such, the Proposed Plan does not provide a path to restructuring debt and pension obligations to reach a sustainable level, and ensuring funding of essential services for the people of Puerto Rico. The Proposed Plan also does not provide the specificity of implementation detail required to fully evaluate the feasibility of most measures.

PROMESA provides the Government with a powerful tool to restore economic growth and opportunity to the people of Puerto Rico. Debt restructuring is necessary, but it alone is neither sufficient nor a sustainable solution. The scope of the Government's response to these fiscal challenges must be commensurate with the magnitude of the fiscal imbalance.

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[1] For the reasons stated in this letter, the Board has determined the Proposed Plan does not provide a method to achieve fiscal responsibility and access to the capital markets because it does not satisfy adequately PROMESA § 201(b)(1)(B), (D), (E), (F), (G), and (I). Additionally, it does not provide sufficient data to determine whether it satisfies PROMESA § 201(b)(1)(M) and (N), although the Board understands compliance with those sections is dependent on future debt restructuring negotiations and other events. The Board's recommended revisions for the violations are also included in this letter.

Baseline

The Board has concluded that the revenue projections used by the Government to calculate structural deficits are overly optimistic in terms of: a) economic growth rates and the time to return to nominal economic growth; and, b) the failure to reflect near-certain declines in baseline revenues associated with corporate taxes and non-resident withholding taxes. In addition, based on the Ernst & Young analysis, the Board has concluded that the Government's FY17 expenditures could be understated by an amount ranging from $60 to $510 million, with a cumulative impact much greater over the next ten years. The Government's liquidity projection is further understated by $300 million in FY17.

The Board recommends that the FY17 General Fund Expenses ($8.3 billion per page 129 of the February 28th Proposed Plan) be increased by $585 million, based on recent historical expenditure trends. The impact of this adjustment over the next ten years is modeled in *Table 1* below.

Table 1: Board guidance for adjustments to baseline expenditures on page 129 of the Proposed Plan

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Expense reconciliation adjustment, $M	(585)	(592)	(598)	(604)	(610)	(618)	(627)	(637)	(647)	(657)

The Board recommends the following annual GNP and inflation rates included in *Table 2*:

Table 2: Guidance on nominal annual GNP and inflation growth rates

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
PR Nominal GNP growth factor, %	*(2.2%)*	*(2.8%)*	*(2.4%)*	*(0.5%)*	*(0.4%)*	*0.3%*	*1.0%*	*1.6%*	*2.1%*	*2.6%*
PR inflation rate factor, %	*(0.2%)*	*1.2%*	*1.0%*	*1.0%*	*1.1%*	*1.3%*	*1.5%*	*1.5%*	*1.6%*	*1.6%*

Recommendations regarding revenues, subsidies and pensions

The Board believes the Proposed Plan is headed in the right direction for the key reform areas of pensions, subsidy reductions (municipal, UPR, and private transfers), and improving tax compliance while committing to replacing and improving the corporate tax code. There are, however, a few areas where the Board requires corrections or supporting data, to reach certification:

- **Revenues:** The Board appreciates and supports efforts by the Government to continue to address tax non-compliance through improved audit and collections programs, particularly with regard to the sales and use tax and the income tax. The Board is concerned, however, that the aggressive pace of revenue enhancement included in the Proposed Plan is not supported by sufficient detail to justify these assumptions. The Board has concluded that a compliance uplift of around $150 million in FY18 and $300 million in FY19 is more achievable. The Board has also concluded that the rate of implementation for corporate tax reform as a replacement for Act 154 revenues is also too ambitious and that the revenues are overstated by at least $250 million in FY19. Moreover, as noted earlier, the Board believes the baseline growth assumptions in the

Proposed Plan are too optimistic, which in turn results in unrealistic projections for the impact of these measures on future revenues. Puerto Rico has been in a steady state of economic decline for the past 10 years and there is insufficient economic evidence to suggest a turnaround in revenues at the level envisioned in the Proposed Plan.

- **Higher education.** The Board is supportive of the Governor's difficult decision to reduce subsidies to the University of Puerto Rico by $300 million in FY19. The magnitude of the Government's structural deficit, however, requires that this reduction in annual subsidy grow to a minimum of $450 million by FY21 as a result of: (1) application of measures to a growing expenditure baseline; and, (2) the phasing-in of additional measures related to tuition, other revenue enhancements, and operational improvements.

- **Pensions.** The Board agrees with the Government's proposal to shift active employees to a defined contribution system in which employee contributions would be segregated from funds used to pay benefits to current retirees, and employees would receive the full investment return on their accounts (versus currently receiving only 80 percent of investment returns in the ERS). The Board also supports the Government's proposal to reduce pension costs in a progressive way that protects the most vulnerable citizens. However these principles are inadequately implemented in the Proposed Plan. The Proposed Plan does not budget for the segregation of employee pension contributions. Unless contributions are immediately segregated, employees face the risk that their contributions will not be saved and invested to pay their future benefits. Additionally, the reductions in benefit costs proposed in the Proposed Plan are insufficient. Pension cost reductions substantially lower than the 10% benchmark set by the Board will shift an excessive amount of cost burdens to other stakeholders, including those who already are suffering from reductions in government outlays to health, education and other priorities. Benefit adjustments should be implemented in a manner that accounts for differences in Social Security coverage among different classes of Government employees. More detailed implementation plans for pension reforms are required, including provisions to ensure that the administrator chosen to manage employee accounts does so in a responsible way at the lowest possible cost to employees.

Recommendations regarding healthcare and right-sizing

There are two reform areas where the Proposed Plan needs significant improvement in terms of specificity, scale and timing, to achieve structural balance.

- **Healthcare reforms focused on "bending the cost curve".** While the Board supports efforts to curb fraud, waste and abuse in the Puerto Rican healthcare system, lasting and scaled reductions in healthcare expenditure on the Island require reforms focused on actually shifting care to lower cost sites, reducing unnecessary utilization of the health system and otherwise making the system more efficient. Further, in light of the fiscal cliff pending with the reduction in Affordable Care Act ("ACA") funding, the Government will need to implement further actions around cost-sharing and elimination of optional benefits. The Board suggests the Government include in its Proposed Plan interim

milestones to create targeted per member per month ("PMPM") ceilings to optimize government hospital traffic and a pathway to curb prescription drug costs. Further, while the Board would like to expand coverage on the Island, it does not believe the current fiscal situation allows for expansion of coverage during this period of fiscal crisis. Bottom line, the Government should achieve at least $100 million in annual expenditure reductions in healthcare in FY18; $300 million in FY19, and $750 million by FY21.

- **Government right-sizing that is sustainable in the short and long-term.** The Board agrees that employee benefits offered by public corporations should match those offered in other public agencies. However, the right-sizing measures are deficient in two dimensions: (1) there is a need for aggressive, emergency measures to reduce Government spending starting in FY18 (e.g., furloughs, greater reductions to Christmas bonuses, reduction of professional service fees and other contracts, and other measures outlined in the Board's March 8th letter); and (2) over the medium-term, the Proposed Plan lacks sufficient detail to demonstrate how consolidation and externalization measures will save sufficient funds in personnel and procurement expenses to close the structural deficit. Specifically, there need to be expenditure reductions in the legislative and executive branches of government, commensurate with those required of the executive branch, of at least 20%, as well as efforts to consolidate schools to align to the decline in student population. The Government will need to achieve personnel-related expenditure reductions of at least $550 million by FY18, $900 million by FY19, and $1.3 billion by FY21.

Timing to reach fiscal balance

Our review of the Proposed Plan leads us to the conclusion that the Government's structural reform measures will not achieve fiscal balance in two years. In order to achieve the right balance between mitigating the near-term economic crisis while also needing to rapidly address the near-term liquidity and debt sustainability needs of the Island, the Board has updated its guidance to recommend an additional year to achieve fiscal equilibrium. The Government needs to implement reforms to accomplish three objectives: (1) near-term liquidity; (2) medium-term structural balance; and (3) long-term economic recovery and growth.

Structural Reforms

The Board agrees with many of the structural reforms proposed by the Government to achieve long-term growth, particularly reforms to private labor and the Government permitting process. The levels of structural reforms laid out in the Proposed Plan are, however, insufficient to achieve the necessary rate of GNP growth. Specifically, the Government should strengthen its plans for lowering energy prices and improving labor force participation. Reforms should include, but not be limited to: reforming welfare and other public assistance programs to encourage work, removing anti-competitive regulations, reducing transaction costs associated with property registry, and creating a professional, technocratic government workforce. The Commonwealth must provide additional detail on the implementation and sequencing of each of its proposed measures.

The Board appreciates the focus in the Proposed Plan on delivering the Government's capital projects more efficiently, including even greater utilization of public-private partnerships (P3s). When successfully executed, innovative procurement approaches can reduce costs, accelerate delivery and introduce new technologies. As the Government builds out a more specific project pipeline, it is critical that objective criteria be established that include projected return on investment or benefit/cost ratio as a foundational element for each investment. The Government should also continue to focus on building overall capital procurement and delivery capabilities (not just for P3 projects). In addition, while executive actions related to accelerated permitting are encouraging, the Government will need to build management systems (supported by adequate information technology) to drive faster decisions, focus on the way agencies coordinate with each other on the front lines, and develop project and program-level performance metrics related to approval speeds.

Conclusion

The Board recognizes the difficulties implicit in these policy decisions, as well as the long path to return Puerto Rico to fiscal stability. Reaching this goal will take time, enormous effort and the full commitment of Puerto Rico's political leadership, but done properly and in a sustained manner it will put Puerto Rico on the path to a better future. The Board specifies 9:00am AST on Saturday, March 11th as the deadline for submitting a revised, proposed fiscal plan.

Sincerely,

José B. Carrión
Chair

Andrew G. Biggs
Carlos M. García
Arthur J. González
José R. González
Ana J. Matosantos
David A. Skeel, Jr.

CC: Elías F. Sánchez-Sifontes